

Message Text

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PAGE 01 KINSHA 00405 01 OF 02 211134Z

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ACTION EB-07

INFO OCT-01 AF-06 ISO-00 AGR-05 COME-00 XMB-02 SP-02

AID-05 NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 6049

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AMCONSUL BUKAVU

LIMITED OFFICIAL USE SECTION 1 OF 2 KINSHASA 0405/1

E.O. 11652: N/A

TAGS: BAGB BEXP CG

SUBJ: AGRIBUSINESS OPPORTUNITY REPORTING AND ACTION REQUIREMENTS

REF: STATE A-7008

1. IN MANY WAYS ZAIRE IS PARTICULARLY SUITABLE FOR AGRO-INDUSTRY DEVELOPMENT. IT IS A LARGE TROPICAL COUNTRY WITH MORE THAN AMPLE RAINFALL AND A RELATIVELY SMALL POPULATION. ITS POTENTIAL WAS WELL RECOGNIZED DURING THE COLONIAL PERIOD SO THAT JUST PRIOR TO INDEPENDENCE ZAIRE (OR THE BELGIAN CONGO) WAS A MAJOR WORLD EXPORTER OF PALM OIL, COFFEE, RUBBER AND CHINCHONA. IT ALSO PRODUCED SIGNIFICANT AMOUNTS OF TEA AND COTTON. AT THE HEIGHT OF ITS PRE-INDEPENDENCE ERA ONLY AN ESTIMATED 1.2 PERCENT OF THE POTENTIALLY ARABLE LAND WAS PLANTED IN ANNUAL FIELD OR TREE CROPS. OF THIS FIGURE ONLY 10 PERCENT OF THE LAND WAS PLANTED IN PURELY EXPORT CROPS; YET AGRICULTURAL CROPS ACCOUNTED FOR ONE THIRD TO ONE HALF OF TOTAL EXPORT EARNINGS. CONSIDERING THAT DURING THE SAME PERIOD ZAIRE HAD BECOME A LEADING WORLD PRODUCER OF COPPER, COBALT AND INDUSTRIAL DIAMONDS, ONE CAN BEGIN TO GRASP THE MONUMENTAL POTENTIAL OF THE COUNTRY. OF COURSE, THERE ARE ALSO NEGATIVE FACTORS. THE SOIL IS GENERALLY POOR AND LEACHED. AREAS AWAY FROM THE WELL DEVELOPED RIVER-RAIL TRANSPORTATION SYSTEM ARE POORLY

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PAGE 02 KINSHA 00405 01 OF 02 211134Z

SERVED BY ROADS AND EVEN THESE ARE POORLY MAINTAINED. DURING THE

FIRST THREE YEARS OF INDEPENDENCE, FIGHTING IN THE COUNTRYSIDE DROVE AWAY BOTH THE SETTLER PLANTATION OWNERS AS WELL AS THE CONGOLESE FARMERS, AND THE ONCE REASONABLY WELL DEVELOPED INFRASTRUCTURE BEGAN TO DETRIORATE. THUS, BETWEEN 1959 AND 1966 RECORDED AGRICULTURAL EXPORTS DECLINED BY 50 PERCENT. A COUNTRY ONCE SELF-SUFFICIENT IN FOOD HAD BECOME A HEAVY IMPORTER OF FOOD AND REMAINS SO TO THIS DATE.

2. BY THE LATE SIXTIES A PARTIAL COMEBACK WAS UNDER WAY. THE MONETARY REFORM AND STABILIZATION PROGRAM OF 1967 WHICH TRIPLED THE PRICE OF BOTH IMPORTS AND EXPORTS WAS AN INCENTIVE TO AGRICULTURAL PRODUCTION BOTH FOR LOCAL CONSUMPTION AND EXPORT. NEVERTHELESS, EFFORTS TO REACH PRE-INDEPENDENCE PRODUCTION LEVELS WERE FRUSTRATED BY INADEQUATE FINANCIAL RESOURCES, LACK OF TECHNOLOGICAL INPUTS, AND A GENERAL INABILITY TO RESTORE THE RURAL INFRASTRUCTURE.

3. MORE RECENTLY THE COUNTRY'S AGRICULTURAL SYSTEM SUFFERED HEAVY SETBACKS AS A RESULT OF THE ZAIRIANIZATION PROGRAM OF NOV 1973, FOLLOWED BY THE RADICALIZATION MEASURES OF DEC 1974. UNDER THE FORMER,

PRACTICALLY ALL OF THE FOREIGN-OWNED FARMS AND RURAL COMMERCIAL ENTERPRISES WERE TURNED OVER TO ZAIRIAN OWNERS. EVEN WHEN THE BEST OF INTENTIONS WERE PRESENT (AND OFTEN THEY WEREN'T) THE NEW OWNERS GENERALLY LACKED THE EXPERIENCE OR ACCESS TO CREDIT SOURCES TO KEEP THE FARM GOING. EVEN WHEN PRODUCTION COULD BE MAINTAINED, ALBEIT ON A REDUCED SCALE, THERE WERE INSUFFICIENT NEW ZAIRIAN MIDDLEMEN ABLE TO GET THE PRODUCE TO THE REGIONAL MARKETS. AGRICULTURAL PRODUCTION AGAIN BEGAN A SERIOUS DECLINE. THE DEC 1974 RADICALIZATION MEASURES WERE DESIGNED, IN PART, TO RESCUE THE ZAIRIANIZATION PROGRAM BY TAKING THE LARGER ENTERPRISES AWAY FROM PRIVATE OWNERS AND PLACING THEM UNDER STATE CONTROL. GOVT OFFICES WERE SET UP TO ADMINISTER THE PLANTING, GROWING AND MARKETING OF EACH MAJOR PRODUCT. STILL, PRODUCTION CONTINUED TO DECLINE. THIS SITUATION WAS EXACERBATED DURING THIS PERIOD BY THE PLUNGE IN COPPER PRICES, BY FAR THE MOST IMPORTANT EXPORT. THUS, AT THE SAME TIME WHEN FOREIGN EXCHANGE EARNINGS FROM COPPER, THE PRINCIPAL FOREIGN EXCHANGE EARNER, DROPPED ABOUT ONE HALF, EARNINGS FROM AGRICULTURAL PRODUCE WERE ALSO DECLINING RAPIDLY. MOREOVER, THE COUNTRY WAS FINDING IT NECESSARY TO IMPORT HEAVILY INCREASING AMOUNTS

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PAGE 03 KINSHA 00405 01 OF 02 211134Z

OF FOOD. WERE IT NOT FOR THE FACT THAT SOME OF THE LARGER AGRO-INDUSTRY PLANTATION SUCH AS UNILEVER, WERE LEFT INTACT, THE AGRICULTURAL CRISIS WOULD LIKELY BE WORSE.

4. WITH THE DEEPENING FOREIGN EXCHANGE CRISIS OF 1975, SENIOR GOZ OFFICIALS FOUND IT NECESSARY TO PLAN A STABILIZATION PROGRAM IN WHICH, OF COURSE, AGRICULTURE WAS GIVEN TOP PRIORITY ATTENTION. THE EXPLICITLY RECOGNIZED THE DAMAGE DONE BY ZAIRIANIZATION

AND RADICALIZATION AND NOW THE PENDULUM IS MOVING BACK IN THE
OPPOSIT DIRECTION. ACCORDING THE THE DEC 30, 1975 ANNOUNCEMENT
(PRECEDED BY A PRESIDENTIAL SPEECH IN NOV), FORMER PLANTATION
OWNERS ARE TO BE GIVEN BACK A 40 PERCENT SHARE OF THEIR FORMER
HOLDINGS ALONG WITH MANAGERIAL CONTROL. THOSE 60 YEARS OR OVERE,
WHO SPENT LONG YEARS IN ZAIRE, WOULD RECOVER THEIR HOLDINGS
COMPLETELY. ACCORDING TO INFORMED LOCAL SOURCES NOT MANY OF THESE
FORMER OWNERS WOULD RETURN TO ZAIRE -- EITHER BECAUSE THEY ARE
ALREADY RELOCATED IN OTHER PARTS OF AFRICA OF BECAUSE OF THEIR
COMPLETE DISENCHANTMENT WITH THE COUNTRY. THEREIN LIES AN OPPORTUNITY
FOR US AGRO-INDUSTRY ENTRY INTO AREA. IN ADDITION, THERE ARE A
SIZEABLE NUMBER OF NEW PROJECTS IN VARIOUS STAGES OF IMPLEMENTATION

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PAGE 01 KINSHA 00405 02 OF 02 192238Z

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 6063

INFO AMCONSUL LUBUMBASHI

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LIMITED OFFICIAL USE SECTION 2 OF 2 KINSHASA 00405

E.O. 11652: N/A

WHICH NEED FOREIGN INPUTS.

5. THE GOZ POLICY TOWARD FOREIGN INVESTMENT IN AGRICULTURE IS UNDER-
GOIND A POSITIVE CHANGE. THE NOV 23, 1973, DECREES LIMITED ALL
PARTICIPATION IN ZAIRIAN AGRICULTURE TO ZAIRIANS. (THERE WERE
EXCEPTIONS MADE.) THE DEC 1975 MEASURES STATED THAT ONLY "SMALL"
AGRICULTURAL ENTERPRISES WOULD BE RESEVED FOR ZAIRIANS. OTHERWISE,
FOREIGN INVESTMENT WAS SPECIFICALLY WELCOMED UNDER GUARENTEES.

DESPITE ITS MINERAL WEALTH, AGRICULTURE IS THE CHOKER POINT OF FURTHER ECONOMIC DEVELOPMENT IN ZAIRE AND THIS FACT IS WIDELY RECOGNIZED. IT IS ALSO WELL RECOGNIZED THAT ZAIRE HAS NEITHER THE FINANCIAL NOR HUMAN RESOURCES TO DO THE JOB. ALTHOUGH JOINT VENTURES WOULD BE PREFERRED, THIS WOULD NOT EXCLUDE POSSIBILITY OF THE GOZ ACCEPTING 100 PERCENT US PROJECTS UNDER LONG-TERM LEASES. GOZ OFFICIALS DON'T WANT TO BE PINNED DOWN ON THIS ISSUE, BUT HAVE ASSURED COMBATTS THAT GOZ WILL BE OPEN TO ALL PROPOSALS WHICH WILL LIKELY BE ACCEPTED OR REJECTED ON AN INDIVIDUAL BASIS. NEVERTHELESS, FOR THE IMMEDIATE FUTURE, A FIRM WITH CAPITAL AND EXPERTISE TO OFFER WOULD ENJOY A FAVORABLY BARGAINING POSITION VIA-A-VIS THE GOZ. THE GOZ RECORD FOR PROTECTING PREVIOUS US INVESTMENT THAT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 02 KINSHA 00405 02 OF 02 192238Z

FELL UNDER THE INVESTMENT CODE HAS GENERALLY BEEN GOOD. AS PREVIOUSLY INDICATED, THE GOZ HAS GIVEN TOP PRIORITY TO BECOMING SELF-SUFFICIENT IN AGRICULTURAL PRODUCTS, AS WELL AS REGAINING AND SURPASSING THE COUNTRY'S PRE-INDEPENDENCE STATUS AS AN EXPORTER OF AGRICULTURAL PRODUCTS. FOR THE FORSEEABLE FUTURE THE GOZ IS LIKELY TO GO ALONG WITH ANY PROJECT THAT WOULD MINIMIZE FOREIGN EXPENDITURES FOR FOOD OR MAXIMIZE AGRICULTURAL INCOME THROUGH FOREIGN SALES. THE RECENT NEAR DISASTROUS EXPERIMENT IN STATE CONTROLS FOR POLITICAL ENDS PRESAGES A LIBERALIZED IMPORT-EXPORT REGIME SO LONG AS ZAIRE'S PERCEIVED BASIC INTERESTS ARE PROTECTED AND FURTHERED.

6. AS THE FORMER METROPOLITAN POWER WITH A SIZEABLE STORE OF EXPERIENCE IN AND KNOWLEDGE OF THE COUNTRY, THE BELGIANS HAVE BEEN QUICK TO TAKE ADVANTAGE OF THE CHANGING GOZ POSTURE IN ORDER TO BECOME REINVOLVED IN ZAIRIAN AGRICULTURE. THE FRENCH HAVE BEEN QUIETLY, BUT VERY ASSIDUOUSLY, GAINING A FOOTHOLD HERE OVER THE PAST SEVERAL YEARS AS A SUPPLIER OF EQUIPMENT, INVESTMENT AND EXPERTISE. THE CANADIANS HAVE TAKEN A STRONG POSITION ON FORESTY EXPLOITATION, WHILE GERMAN INTERESTS HAVE PRACTICALLY SEWN UP CONTROL OF PHARMACEUTICAL PLANT PRODUCTION IN THE KIVU PROVINCE. IN SOMEWHAT WEAKER POSITIONS FOR THE COMPETITIVE POSITION ARE THE RUMANIANS, WHO ARE BEGINNING TO TAKE ON AGRO-INDUSTRIAL PROJECTS, AND THE PEOPLE'S REPUBLIC OF CHINA, WHOSE AGRICULTURAL EFFORTS IN THIS COUNTRY ARE LIMITED TO RICE PRODUCTION. IN ADDITION, AN EUROPEAN ORGANIZATION, FED (FOND EUROPEAN DE DEVELOPPMENT), IS BECOMING INVOLVED IN VARIOUS SCHEMES AIMED AT REHABILITATING EXISTING UNITS OF PRODUCTION AS WELL AS DEVELOPING NEW ONES. AN ARGENTINE COMPANY IS IN THE PROCESS OF ESTABLISHING THREE LARGE CATTLE RANCHES IN THE SHABA REGION.

7. THE QUESTION OF REPAYMENT OF GUARENTEES FOR AGRI-BUSINESS LOANS HAS NOT BEEN EXPLORED AND GOZ OFFICIAL WOULD UNLIKELY FOCUS ON IT UNTIL IT BECOMES GERMANE IN REGARDS TO A PROPOSED PROJECT.

8. POTENTIAL AREAS OF FOREIGN INVESTMENT:

A. FERTILIZER PRODUCTION
B. FORESTRY EXPLOITATION
C. SUGAR
D. COCOA
E. VEGETABLE PRODUCTION IN KIVU PROVINCE FOR
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PAGE 03 KINSHA 00405 02 OF 02 192238Z

SALE IN EUROPEAN WINTER MARKET
F. CEREALS
G. POULTRY FARMING
H. CATTLE RANCHING
I. COTTON
J. FISHERIES
K. FOOD PROCESSING
L. PESTICIDES, FUNGICIDES AND VETERINARIAN PHARMACEUTICALS.

9. EMB UNDERSTANDS A NUMBER OF US FIRMS ARE WILLING TO MAKE FOREIGN
INVESTMENTS WITH THE UNDERSTANDING THAT THE FOREIGN GOVT WILL GRANT
SOME TYPE OF EXCLUSIVITY FOR X NUMBER OF YEARS. THE ZAIRIANS HAVE
RECENTLY HAD SOME BAD EXPERIENCES WITH "EXCLUSIVITY" AND US FIRMS
SHOULD UNDERSTAND THIS A PARTICULARLY TOUCHY POINT IN ZAIRE AT
THIS TIME.
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